



ZHENGYE
INTERNATIONAL

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
Incorporated in Bermuda with limited liability



2017 INTERIM REPORT

Stock Code : 3363

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Hanchao (Chairman)

Mr. Hu Hancheng

(Vice-Chairman and Joint Chief Executive Officers)

Mr. Hu Zheng

(Vice-Chairman and Joint Chief Executive Officers)

Non-executive Director

Mr. Hu Hanxiang

Independent Non-Executive Directors

Mr. Chung Kwok Mo John

Mr. Wu Youjun

Prof. Zhu Hongwei

COMPANY SECRETARY

Mr. Kersen Chan

BOARD COMMITTEES

Audit Committee

Mr. Chung Kwok Mo John (Chairman)

Mr. Wu Youjun

Prof. Zhu Hongwei

Risk Management Committee

Mr. Chung Kwok Mo John (Chairman)

Mr. Wu Youjun

Prof. Zhu Hongwei

Mr. Hu Zheng

Remuneration Committee

Mr. Chung Kwok Mo John (Chairman)

Mr. Wu Youjun

Prof. Zhu Hongwei

Mr. Hu Zheng

Nomination Committee

Mr. Hu Zheng (Chairman)

Mr. Chung Kwok Mo John

Mr. Wu Youjun

Prof. Zhu Hongwei

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

20th Floor, Building 2

Ocean Plaza, 28 Boai No. 6 Road

East District, Zhongshan, Guangdong

The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1913, 19th Floor

Peninsula Tower

538 Castle Peak Road, Cheung Sha Wan

Kowloon, Hong Kong

AUTHORIZED REPRESENTATIVE

Mr. Hu Zheng

Mr. Kersen Chan

LEGAL ADVISER

As to Bermuda law

Conyers Dill & Pearman

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Hamilton HM 08
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
Industrial Bank Company Limited

SHARE INFORMATION

Stock code: 3363

COMPANY'S OFFICIAL WEBSITE ADDRESS

<http://www.zhengye-cn.com>

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the “**Board**”), I am pleased to present the interim results of Zhengye International Holdings Company Limited (the “**Company**” or “**Zhengye International**”, together with its subsidiaries, our “**Group**” or the “**Group**”) for the six months ended 30 June 2017 (the “**period**” or the “**period under review**”).

BUSINESS REVIEW

In 2017, the Chinese government continued to undertake the restructuring of the paper-manufacturing industry through higher environmental standards and intensified law enforcement, which resulted in the overall improvement of imbalance of supply and demand in the industry. With the elimination of overcapacity amidst the industry integration and consumer demand driven by China's stable economic growth, the supply shortage led to a sharp increase in paper prices during the Period, which was supportive for the sizeable paper manufacturers. On the back of the supply-side reform's advantages and our internal enhancement initiatives during the Period, the Group achieved outstanding results in the first half of 2017.

I am pleased to announce that the Group's overall turnover amounted to approximately RMB1,158,424,000 for the six months ended 30 June 2017, representing a year-on-year increase of 21.43% (six months ended 30 June 2016: RMB953,989,000). The Group's gross profit was RMB272,461,000 and gross profit margin was about 23.52%, representing a year-on-year increase of 2.17 percentage points. Profit and total comprehensive income for the period attributable to owners of the Company was RMB86,611,000, representing a significant year-on-year increase of approximately 161.69%. Basic earnings per share amounted to approximately RMB17 cents.

OUTLOOK AND ACKNOWLEDGEMENTS

Since our establishment in 1999, we have adhered to the customer-oriented business philosophy with a focus on the quality of products and services. With years of commitment and improvement, we have now become a leading packaging-paper manufacturer in China as well as one of the leading corrugated paper producers in the Guangdong region, providing customers with an integrated service solution covering paper-product production and paper-based packaging products.

With the tightening of national environmental standards, the Chinese paper-manufacturing industry has been hit by increasingly stringent policy regulations and requirements in recent years, with a massive number of small-sized paper manufacturers under the threats of shutdown and elimination. The production capacity consolidation and rising prices of major raw material waste paper and coal have brought a new landscape to the paper-manufacturing industry. Against the backdrop of skyrocketing prices and excess demand, we have demonstrated our market strength by seizing business opportunities in the industry through capacity expansion by way of merger and acquisition and enhancement of internal consolidation in the early years.

CHAIRMAN'S STATEMENT

We have set the tone for the second half of the year with the theme of “ongoing internal enhancement and seeking business opportunities actively”. With a designed annual production capacity of 800,000 tonnes in total by paper division, we have been enjoying the scale of economy in production in the industry. Detailed internal procedures must be undertaken to maintain capacity strength and highly-efficient production. Focusing on refined management, we have been striving to implement integration of production lines in various plants and adopt standard models for overall management since the early years. We downsized about 10% employees of the Group without any impact on production operation in early 2017, enhancing our cost structure successfully. By riding on the success of previous efforts, we will continue to implement our upgrade and improvement schemes, taking a further step towards the “Industry 4.0” concept through the proposed planning of smart and automated plants.

The emerging e-commerce trend has led to rapid growth in express delivery and logistics businesses in recent years, driving up market demand for packaging paper, cardboard paper, corrugated paper and other packaging-related paper products, and the stable domestic economic growth has also boosted consumption and demand. The demand for electronic products, food and consumer goods will see an expected increase, bringing much room for our future growth. Our tailored and one-stop service solution can address a wide range of requirements on packaging boxes by corporates. Our quality packaging products and services have attracted quality clients including industry leaders, and our long-term relationship with them serves as a testimony to our core competitive strength. By stepping up efforts in research and development and offering value-added packaging solutions, we are confident in gaining the trust of potential customers.

The Chinese government promulgated a series of new regulations and notices and put forward more stringent requirements in respect of environmental protection. Our corporate mission is to promote environmental friendly packaging in China and develop green packaging business. Over the years, we have been proactive in establishing internal environmental protection systems and adopting indicator-based management models, and have put various emission reduction and recycling plans into practice. By introducing foreign environmental protection technology and learning from successful experience, we will continue to align ourselves with the Chinese government in pushing forward environmental protection, and step up efforts in environmental protection initiatives as we strive to become an acclaimed role model for environmental protection.

In the second half of the year, the Group will keep up its efforts to perfect every aspect of its business, seize business opportunities, leverage advantageous conditions and shoulder our corporate social responsibilities to become a sustainable industry leader with strong growth potential, in return for the backing of shareholders and investors over the years. On behalf of the Board, I would like to extend my heartfelt gratitude to all customers, business partners, suppliers, banks and all shareholders for their support and great kindness to the Group.

Hu Hanchao

Chairman

Hong Kong, 25 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China is energetically promoting supply-side structural reform to adjust industrial structure with a focus on quality development. Against the backdrop of the national campaign for energy conservation and environmental protection, the environmental requirements on the paper-making industry become increasingly higher as there are a growing amount of policies setting targets to quicken the pace of eliminating excess and backward production capacity in the industry. With tightening regulations of the environmental protection authority, it makes the paper industry continues to accelerate the elimination of backward production capacity. Moreover, with the rapid development in online shopping and logistics industries, the demand of packaging paper increased significantly; it can improved the demand and supply relationship in paper industry, and resulted the substantial growth in base paper prices, which unfolded a “new normal” of the paper-making industry.

With more backward production capacity withdrew from the market, a premium paper packaging enterprises with large-scale in industry will become an advantages in attracting market orders or adjusting prices. The Group has taken the initiative in seizing opportunities in recent years and pursuing internal improvements in various aspects amidst industry integration. Thanks to such efforts, it saw gradual improvements in efficiency and cost control during the year.

Turnover

Driven the ongoing industry integration, paper prices and demand picked up, bringing considerable income to the Group. For the six months ended 30 June 2017, the Group recorded a turnover of RMB1,158,424,000, up 21.43% year-on-year. The sales of paper-based packaging products and corrugated medium paper products accounted for 37.60% and 62.40% of the total sales, respectively. In addition, the Group's gross profit for the period amounted to RMB272,461,000, up 33.75% year-on-year. As the Group's one-stop production chain effectively withstood the volatility of raw material prices, coupled with its flexible business strategy, its gross profit margin increased by 2.17 percentage points to 23.52% as compared with the same period of last year. Profit and total comprehensive income attributable to owners of the Company for the period was RMB86,611,000, up by 161.69% year on year.

As the leading provider of paper packaging and corrugated medium paper services in the Pearl River Delta, the Group has no fear of the fickle external environment and achieved shining performance during the period by virtue of its integrated production mode and excellent customer service system.

MANAGEMENT DISCUSSION AND ANALYSIS

Paper-based packaging products

The Group's paper-based packaging products, mostly corrugated cartons and honeycomb paper-based products, are mainly sold to leading industry players such as small home appliance and air-conditioner makers, electronics manufacturers and food seasonings manufacturers.

During the period, driven by the improving macroeconomic environment and growing domestic consumption needs, the demands for paper-based packaging products from small home appliance and air-conditioner makers were on the rise. In addition, the Group made R&D investment to design more diversified packaging products, thereby boosting orders for electronics packaging products and enhancing the Group's overall sales performance during the period. Moreover, the rising price in base paper also pushed up product prices. As a result, during the period, the Group's overall turnover of paper-based packaging products increased considerably by 26.31% year on year to RMB435,569,000 (for the six months ended 30 June 2016: RMB344,851,000). Corrugated cartons and honeycomb paper-based products accounted for 76.82% and 23.18% of the overall turnover (for the six months ended 30 June 2016: 76.20% and 23.80%), respectively.

Corrugated medium paper

In recent years, the supply and demand in base paper has improved after eliminating backward production capacity by the government. In the case of reduced production capacity and increasing the market demand, it made the paper prices rose sharply; the raised paper prices by many paper-making enterprises which recorded a substantial increase of turnover in corrugated medium paper at the first half of the year. The turnover of corrugated medium paper jumped by 18.67% year on year to RMB722,855,000 (for the six months ended 30 June 2016: RMB609,138,000).

PROSPECT

As the actual amount of outdated production capacity phased out every year was greater than the target amount set by the Ministry of Industry and Information Technology, overcapacity in the industry has been greatly mitigated and quality capacity is expected to gradually replace backward capacity in the coming years. Under the supply-demand restructuring in the industry, paper prices experienced a wave of growth.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the Chinese government maintained its grip on environmental protection and supervision and issued an array of new environmental regulations and notices, such as the Implementation Plan for the Permit System of Pollutants Discharge Control issued by the General Office of the State Council in November 2016 which requires local governments to build a system for approving and issuing emission permits to paper-making enterprises and to carry out environmental supervision and law enforcement duties. To adapt to the increasingly stringent policy control and environmental requirements, the Group always follows the state's environmental guidelines closely to develop green industry by adopting targeted management measures for its plants in recent years and constantly improving the specifications of its environmental protection equipment. The Group has put in place in its plants environmental protection equipment that meets national standards, including sewage stations, thermoelectric sub-plants and automatic boiler emissions monitoring devices, and regularly monitors the emissions of waste gas, sewage and waste and reviews the effectiveness of its environmental protection work. The Group will continue to improve its environmental protection equipment as planned to uphold its long-lived green business philosophy and consolidate its advantages in the industry.

In terms of internal resource integration, the Group began to invest heavily in integrating resources of its regional plants several years ago with a focus on refining internal systems to manage productivity with an indicator system and optimize the cost structure. In the previous year, the Group managed to reduce over 10% of workers without undermining productivity. Looking forward, the Group will continue to invest in upgrading production flow to save energy and improve efficiency, and proactively plan for smart factories with automated production to realize Industry 4.0 and maximize the overall production efficiency.

By virtue of the design and quality of its packaging products, the Group enjoys a good reputation in the industry and maintains premium brand status. In the second half of the year, the Group will continue to improve the R&D capability of its design department and reasonably allocate resources worth a certain proportion of revenue to maintain R&D investment, in a hope to adjust product specifications and enrich product categories for customers in due time through the Group's integrated packaging product solutions. Meanwhile, the Group will maintain sound and stable partnership with industry-leading enterprise customers. In addition, the Group will ride the boom of the e-commerce industry to grasp the opportunities in the e-commerce packaging market by seeking cooperation with logistics companies or e-commerce enterprises through negotiation and developing personalized, high-quality and cost-effective products to broaden its customer mix and income sources.

In the second half of 2017, the Group will continue to improve its internal operations and governance by vigorously optimizing the distribution of production capacity, improving production efficiency and controlling supervisory costs, and seize the market opportunities arising from industry integration and environmental policies to maintain its leading position in the paper-based packaging and corrugated medium paper sector with strong R&D capacity, excellent product quality, efficient management system and valuable customer services, so as to enhance market competitiveness and expand market share. The Group believes that its experienced management team will be able to bring about greater profitability and maximize benefits and returns for the Company and its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

The Group's cost of sales increased from RMB750,275,000 for the six months ended 30 June 2016 to RMB885,963,000 for the period under review, representing an increase of 18.09%.

Paper-based packaging products

As for the paper-based packaging products, the cost of sales increased by RMB54,289,000 or 18.98% from RMB286,023,000 for the six months ended 30 June 2016 to RMB340,312,000 for the period under review.

Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB81,399,000 or 17.53% from RMB464,252,000 for the six months ended 30 June 2016 to RMB545,651,000 for the period under review.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit increased by RMB68,747,000 or 33.75% from RMB203,714,000 for the six months ended 30 June 2016 to RMB272,461,000 for the period under review. The overall gross profit margin of the Group for the period under review was 23.52% compared with 21.35% for the six months ended 30 June 2016.

During the period, the gross profit margin of paper-based packaging products rose back to 21.87% (for the six months ended 30 June 2016: 17.06%), mainly due to the Group's tactical reduction in orders with relatively low gross profit and profitability, streamlined staff and improved production efficiency that effectively maintained the lucrative orders and an optimal customer structure and laid a solid foundation for long-term business growth and even industry development.

During the period, thanks to the increase selling price of corrugated medium paper within the Group, its gross profit margin of corrugated medium paper rose year on year by 0.72 percentage points to 24.51% (for the six months ended 30 June 2016: 23.79%).

Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 21.76% from RMB32,893,000 for the six months ended 30 June 2016 to RMB40,052,000 for the period under review, representing about 3.45% and 3.46% of the Group's turnover respectively.

Administrative and other expenses

The Group's administrative and other expenses slightly increased by about 5.73% from RMB66,547,000 for the six months ended 30 June 2016 to RMB70,362,000 for the period under review, representing about 6.98% and 6.07% of the Group's turnover respectively. Administrative and other expenses mainly included salaries of management, staff welfare, rent and depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs of the Group rose by about 7.63% from RMB20,595,000 for the six months ended 30 June 2016 to RMB22,167,000 for the period under review.

Interest rates of bank borrowings were at fixed rates ranging from 1.95% to 7.22% per annum during the period under review, compared with 1.95% to 7.22% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group increased by around 21.40% from RMB24,071,000 for the six months ended 30 June 2016 to RMB29,221,000 for the period under review. The research and development expenses during the period was to improve the competitiveness of our products and develop new products in response to the demand from customers and research on new technology and new process aiming to enhance production efficiency and product quality.

Income tax expense

During the period under review, the Group's income tax expense was RMB12,171,000 (for the six months ended 30 June 2016: RMB8,796,000), accounting for 10.69% of the total profit (for the six months ended 30 June 2016: 18.60%). The lower effective tax rate for the period was mainly due to the effect of utilisation of tax losses previously not recognized.

Profit and total comprehensive income

The Group's profit and total comprehensive income for the period under review was RMB113,885,000, the profit for the period attributable to owners of the Company was RMB86,611,000, represented an increase of 161.69% compared with RMB33,097,000 for the six months ended 30 June 2016.

CURRENT ASSETS AND CAPITAL RESOURCES

Cash flow

As at 30 June 2017, the net amount of the Group's cash flow was RMB154,541,000. The amount arising from operating activity was RMB74,833,000, while the cash outflows of investing and financing activities recorded RMB12,818,000 and RMB66,992,000 during the period under review respectively.

The net amount of the cash outflow used in financing activity was RMB279,725,000 for the repayment of bank and other borrowings.

Inventories

The inventories increased to about RMB131,865,000 as at 30 June 2017, compared with about RMB130,663,000 as at 31 December 2016. As at 30 June 2017, the inventory turnover days were about 27 days (31 December 2016: 30 days) which was at a normal level.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables

As at 30 June 2017, the trade receivables amounted to RMB480,462,000 (31 December 2016: RMB487,313,000). The Group granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were shortened to 77 days (31 December 2016: 86 days).

Bills receivables

As at 30 June 2017, the bills receivables amounted to RMB397,538,000 (31 December 2016: RMB384,355,000).

Trade payables

As at 30 June 2017, the trade payables amounted to RMB327,642,000 (31 December 2016: RMB399,690,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of our suppliers. The turnover days for trade payables were speed up to 70 days (31 December 2016: 92 days).

Borrowings

As at 30 June 2017, the balance of the Group's bank and other borrowings amounted to RMB793,131,000 (31 December 2016: RMB837,606,000).

Gearing ratio

As at 30 June 2017, total gearing ratio was about 32.65% (31 December 2016: 34.53%), which was calculated on the basis of the total amount of bank and other borrowings as a percentage of the total assets. The net gearing ratio was 67.26%, which was calculated on the basis of the amount of bank and other borrowings less cash and bank balances as a percentage of the shareholders' interest (31 December 2016: 81.53%).

Pledge of assets

As at 30 June 2017, the Group pledged certain assets with carrying value of RMB651,437,000 as collateral for the Group's borrowing (31 December 2016: RMB737,006,000).

Capital commitments

As at 30 June 2017, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB52,237,000 (31 December 2016: RMB48,275,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States and Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

HUMAN RESOURCES MANAGEMENT

The Group had 3,056 employees as at 30 June 2017 (as at 31 December 2016: 3,414 employees). Our remuneration is determined by reference to the employees' experience, qualification and overall market situation, while the bonus is related to the financial performance of the Group and the individual performance. The Group also undertakes to provide proper trainings and sustainable professional development opportunities for the employees if needed.

The Company has also adopted a share option scheme (the **"Share Option Scheme"**) with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimize their contributions to the Group and to reward them for their contribution to the Group.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2016, the interests and short positions of the directors and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed issuers contained in the Listing Rules were as follows:

Name of Directors	Name of Group member/associated corporation	Capacity/ Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Hu Zheng	The Company	Interest of controlled corporation (Note 2)	191,250,000 ordinary shares of HK\$0.10 each	38.25%
	Gorgeous Rich Development Limited (" Gorgeous Rich ")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hancheng	The Company	Interest of controlled corporation (Note 3)	93,750,000 ordinary shares of HK\$0.10 each	18.75%
	Golden Century Assets Limited (" Golden Century ")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hanchao	The Company	Interest of controlled corporation (Note 4)	75,000,000 ordinary shares of HK\$0.10 each	15%
	Leading Innovation Worldwide Corporation (" Leading Innovation ")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hanxiang	The Company	Interest of controlled corporation (Note 5)	15,000,000 ordinary shares of HK\$0.10 each	3%
	Fortune View Services Limited (" Fortune View ")	Beneficial owner	1 ordinary share of US\$1.00	100%

OTHER INFORMATION

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 30 June 2016.
2. These shares were held by Gorgeous Rich, which was wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.
3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.
4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.
5. These shares were held by Fortune View, which was wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang was deemed to be interested in the shares held by Fortune View.

Share Options to subscribe for the ordinary shares of HK\$0.10 each in the Company were granted to, among others, certain Directors pursuant to the Share Option Scheme adopted by the Company on 3 June 2011. Information in relation to these Share Options was shown in the following section under the heading "Share Option Scheme".

Save as disclosed above and in the paragraph headed "Share Option Scheme" below, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept by the Company under Section 352 of the SFO.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30 June 2016, so far as are known to any directors or chief executive(s) of the Company, the following parties (other than directors or chief executive(s) of the Company) were recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company.

Name of Shareholder	Capacity/ Nature of interest	Number and class of shares held in the Company percentage (Note 1)	Approximate shareholding percentage
Gorgeous Rich (Note 2)	Beneficial owner	191,250,000 ordinary shares of HK\$0.10 each	38.25%
Ms. Li Lifan (Note 2)	Interest of spouse	191,250,000 ordinary shares of HK\$0.10 each	38.25%
Golden Century (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK\$0.10 each	18.75%
Ms. Li Siyuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK\$0.10 each	18.75%
Leading Innovation (Note 4)	Beneficial owner	75,000,000 ordinary shares of HK\$0.10 each	15.00%
Ms. He Lijuan (Note 4)	Interest of spouse	75,000,000 ordinary shares of HK\$0.10 each	15.00%
RAYS Capital Partners Limited (Note 5)	Investment manager/ Beneficial owner/ Interest of controlled corporation	48,282,000 ordinary shares of HK\$0.10 each	9.66%
Mr. Ruan David Ching-chi (Note 6)	Interest of controlled corporation	48,282,000 ordinary shares of HK\$0.10 each	9.66%
Asian Equity Special Opportunities Portfolio Master Fund Limited (Note 5)	Beneficial owner	45,730,000 ordinary shares of HK\$0.10 each	9.15%

OTHER INFORMATION

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant director or chief executive was interested in expressed as a percentage of the number of issued shares in the Company as at 30 June 2017.
2. Gorgeous Rich is wholly-owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich. Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen was taken to be interested in the same number of shares in which Mr. Hu Zheng was interested.
3. Golden Century is wholly-owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century. Ms. Li Si Yuan is the spouse of Mr. Hu Hancheng. Under the SFO, Ms. Li Si Yuan was taken to be interested in the same number of shares in which Mr. Hu Hancheng was interested.
4. Leading Innovation is wholly-owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation. Ms. He Lijuan is the spouse of Mr. Hu Hanchao. Under the SFO, Ms. He Lijuan was taken to be interested in the same number of shares in which Mr. Hu Hanchao was interested.
5. Asian Equity Special Opportunities Portfolio Master Fund Limited ("**Asian Equity**") is wholly-owned by RAYS Capital Partners Limited. Therefore, RAYS Capital Partners Limited is deemed to be interested in all the Shares held by Asian Equity.
6. The shares in RAYS Capital Partners Limited is owned by Ruan David Ching-chi. By virtue of the SFO, Mr. Ruan David Ching-chi deemed to be interested in the shares held by RAYS Capital Partners Limited.

Save as disclosed above, no other interest or short position in the shares or underlying shares in the Company were recorded in the Register.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 3 June 2011 (the "**Adoption Date**"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date. The major terms of the Share Option Scheme are summarized as follows:

The purpose of the Share Option Scheme is to provide incentives or rewards to selected eligible participants for their contribution to the Group. Under the share Option Scheme, the is Directors of the Company may grant options to any Directors, employees, suppliers, customers, service providers, shareholder, advisors of any member of the Group or any entity in which any member of the Group holds and equity include 3 June 2011, and any other person who the Directors considers, in its discretion, have contributed to the Group.

OTHER INFORMATION

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of listing, unless shareholders approved has been obtained, and which must not in aggregate exceed 30% of the share of the company in issue from time to time. The total number of share issued and to be issued upon the exercise of the options granted to or to be granted to each participate under the Share Option Scheme in any 12-month period shall not exceed 1% of the share of the Company in issue.

The exercise price for the shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("**Offer Date**"); the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and the nominal value of the Company's shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding securities transactions by directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE

The Company had adopted and complied with the code provisions (the "**Code Provisions**") of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules and certain recommended best practices set out in the CG Code throughout the period under review.

OTHER INFORMATION

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment of the external auditors, review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei. Mr. Chung Kwok Mo John is the chairman of the Audit Committee.

RISK MANAGEMENT COMMITTEE

The Company established the Risk Management Committee with written terms of reference. The primary duties of the Risk Management Committee are to assist the Board on deciding the risk level and risk appetite of the Group and considering the Group's risk management strategies. The Risk Management Committee has four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Prof. Zhu Hongwei and Mr. Hu Zheng. Mr. Chung Kwok Mo John is the chairman of the Risk Management Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management. The Remuneration Committee has four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Prof. Zhu Hongwei and Mr. Hu Zheng. Mr. Chung Kwok Mo John is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company established the Nomination Committee with written terms of reference. The primary duty of Nomination Committee is to make recommendation to the Board regarding candidates to fill vacancies on the Board and senior management. The Nomination Committee consists of four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Prof. Zhu Hongwei and Mr. Hu Zheng. Mr. Hu Zheng is the chairman of the Nomination Committee.

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have not been audited but have been reviewed by the audit committee of the Company (comprised all the independent non-executive directors of the Company).

EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of this interim condensed financial information, the Group has no event after the reporting period that need to be disclosed.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	3	1,158,424	953,989
Cost of sales		(885,963)	(750,275)
Gross profit		272,461	203,714
Other income	4	6,766	5,576
Other gains and losses	5	(3,540)	(17,884)
Distribution and selling expenses		(40,052)	(32,893)
Administrative and other expenses		(70,362)	(66,547)
Finance costs	6	(22,167)	(20,595)
Research and development expenses		(29,221)	(24,071)
Profit before tax	7	113,885	47,300
Income tax expense	8	(12,171)	(8,796)
Profit and total comprehensive income for the period		101,714	38,504
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		86,611	33,097
Non-controlling interests		15,103	5,407
		101,714	38,504
EARNINGS PER SHARE			
Basic (RMB)	10	0.17	0.06
Diluted (RMB)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>NOTES</i>	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	11	900,047	920,248
Prepaid lease payments		161,176	163,298
Investment property		13,683	13,773
Other intangible assets	12	932	1,074
Deferred tax assets	18	2,370	2,235
Deposits paid for acquisition of property, plant and equipment		13,955	12,696
		1,092,163	1,113,324
Current Assets			
Inventories		131,865	130,663
Trade and other receivables	13	918,162	894,373
Prepaid lease payments		4,720	4,720
Pledged bank deposits		122,581	123,367
Bank balances and cash	14	154,541	159,518
		1,331,869	1,312,641
Current Liabilities			
Trade and other payables	15	682,654	739,835
Tax liabilities		11,236	11,856
Bank borrowings	17	622,399	636,873
Other borrowings	17	61,498	65,234
Obligations under finance leases		371	350
Amounts due to directors	16	1,400	2,389
		1,379,558	1,456,537
Net Current Liabilities		(47,689)	(143,896)
Total Assets Less Current Liabilities		1,044,474	969,428

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>NOTES</i>	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital and Reserves			
Share capital	19	41,655	41,655
Reserves		725,557	638,721
Equity attributable to owners of the Company			
		767,212	680,376
Non-controlling interests			
		142,865	127,762
Total Equity			
		910,077	808,138
Non-current Liabilities			
Deferred tax liabilities	18	5,007	5,007
Deferred income		12,709	12,966
Bank borrowings	17	98,792	115,356
Other borrowings	17	10,442	20,143
Obligations under finance leases		7,447	7,818
		134,397	161,290
		1,044,474	969,428

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable of owners of the Company					Non-controlling		Total
	Share capital	Share premium	Statutory reserves	Other reserves	Retained earnings	Total	interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (audited)	41,655	92,968	105,633	(23,389)	371,860	588,727	110,413	699,140
Profit and total comprehensive income for the period	-	-	-	-	33,097	33,097	5,407	38,504
At 30 June 2016 (unaudited)	41,655	92,968	105,633	(23,389)	404,957	621,824	115,820	737,644
At 1 January 2017 (audited)	41,655	92,968	115,843	(23,389)	453,299	680,376	127,762	808,138
Disposal of subsidiaries	-	-	(583)	808	-	225	-	225
Profit and total comprehensive income for the period	-	-	-	-	86,611	86,611	15,103	101,714
Transfer to statutory reserve	-	-	219	-	(219)	-	-	-
At 30 June 2017 (unaudited)	41,655	92,968	115,479	(22,581)	539,691	767,212	142,865	910,077

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Profit before tax	113,885	47,300
Adjustments for:		
Finance costs	22,167	20,595
Interest income	(985)	(1,147)
Reversal of government grants	–	(20,914)
Depreciation of property, plant and equipment	33,531	26,217
Depreciation of investment property	90	–
Allowance for trade receivables	2,323	–
Amortisation of prepaid lease payments	2,122	1,630
Amortisation of other intangible assets	142	1,504
Loss (gain) on disposal of property, plant and equipment	668	(22)
Operating cash flows before movements in working capital	173,943	75,163
(Increase) decrease in inventories	(1,870)	11,125
(Increase) decrease in trade and other receivables	(26,112)	52,623
(Decrease) Increase in trade and other payables	(57,181)	24,322
Decrease in amounts due to directors	(989)	(1,419)
Cash generated from operations	87,791	161,814
Income tax paid	(12,958)	(7,272)
NET CASH FROM OPERATING ACTIVITIES	74,833	154,542
INVESTING ACTIVITIES		
Interest received	985	1,147
Proceeds from disposals of property, plant and equipment	–	1,955
Purchase of property, plant and equipment	(13,330)	(8,589)
Proceed from disposal of prepaid lease payment	–	28,345
Redemption of short-term investment	–	10,000
Deposits paid for acquisition of property, plant and equipment	(1,259)	(9,272)
Placement of pledged bank deposits	(34,660)	(205,569)
Withdrawal of pledged bank deposits	35,446	212,792
NET CASH USED IN INVESTING ACTIVITIES	(12,818)	30,809

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
FINANCING ACTIVITIES		
Interest paid	(22,167)	(20,595)
Repayments of obligations under finance leases	(350)	(165)
New bank and other borrowings raised	235,250	634,530
Repayment of bank and other borrowings	(279,725)	(677,017)
Repayment of loans obtained from a non-controlling equity owner of subsidiaries	–	(111,630)
NET CASH USED IN FINANCING ACTIVITIES	(66,992)	(174,877)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,977)	10,474
CASH AND CASH EQUIVALENTS AT 1 JANUARY	159,518	59,442
CASH AND CASH EQUIVALENTS AT 30 JUNE	154,541	69,916

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

In preparing the condensed consolidated financial statements, the directors of the Company (the “**Directors**”) have given careful consideration of the Company and the Group in light of its net current liabilities of RMB47,689,000 as at 30 June 2017. On the basis that the Group has secured credit facilities of approximately RMB418,280,000 which remains unutilised as at 30 June 2017. Being in the year 2017, the board anticipate to control the capital expenditure strictly in order to achieve a reasonable level of debt continuously. The Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendment to HKAS 7	Disclosure Initiative
Amendment to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment.

Six months ended 30 June 2017 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	435,569	722,855	1,158,424
Inter-segment sales	–	60,169	60,169
Segment revenue	435,569	783,024	1,218,593
Eliminations			(60,169)
Group Revenue			1,158,424
Segment Profit	26,711	87,120	113,831
Unallocated corporate income, net			54
Profit before tax			113,885

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued) Six months ended 30 June 2016 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	344,851	609,138	953,989
Inter-segment sales	–	36,245	36,245
Segment revenue	344,851	645,383	990,234
Eliminations			(36,245)
Group Revenue			953,989
Segment Profit	6,154	42,611	48,765
Unallocated corporate expenses, net			(1,465)
Profit before tax			47,300

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represented the profit earned by each segment without allocation of legal and professional fee, bank interest income and other corporate income and expenses.

No reconciliation of reportable segment revenues is provided as the total revenues for reportable segments excluded inter-segment revenue is the same as the Group's revenue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	989	1,147
Government grant	5,769	3,011
Sundry income	8	1,418
	6,766	5,576

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange loss, net	(555)	(17,906)
Gain on disposals of property, plant and equipment	(2,985)	22
	(3,540)	(17,884)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	21,250	17,372
Loan from a non-controlling shareholder	657	1,187
Finance lease	260	2,036
	22,167	20,595

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	33,531	26,217
Amortisation of prepaid lease payments	2,122	1,630
Amortisation of other intangible assets (included in cost of sales)	142	1,504

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	12,306	7,958
Hong Kong Profits Tax	–	–
Withholding tax	–	1,000
Deferred tax (note 18)		
Current period	(135)	(162)
Income tax expense	12,171	8,796

Hong Kong Profits Tax is calculated at 16.5% on the estimated profits for the period.

Under the Law of The People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the approval documents issued by the Ministry of Finance, the Ministry of Technology and the State Administration of Taxation, high-technology enterprises should be eligible for a preferential income tax rate at 15%.

Zheng Ye Packaging (Zhongshan) Company Limited* (正業包裝(中山)有限公司) ("Zheng Ye Packaging (Zhongshan)") and Zhongshan Yong Fa Paper Industry Company Limited* (中山永發紙業有限公司) ("Zhongshan Yong Fa Paper") obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain condition. In 2012 and 2015, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited* (正業包裝(珠海)有限公司) ("Zheng Ye Packaging (Zhuhai)") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016. In 2016, Zheng Ye Packaging (Zhuhai) has renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2017.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	86,611	33,097
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per shares per share	500,000,000	500,000,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

11. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period is summarised as follows:

	RMB'000
As at 1 January 2016 (audited)	981,150
Additions of plant and equipment	14,842
Disposals of plant and equipment	(1,955)
Depreciation for the period	(26,217)
As at 30 June 2016 (unaudited)	967,820
As at 1 January 2017 (audited)	920,248
Additions of plant and equipment	13,330
Depreciation for the period	(33,531)
As at 30 June 2017 (unaudited)	900,047

12. OTHER INTANGIBLE ASSETS

	Development costs
	RMB'000
As at 1 January 2016 (audited)	2,331
Additions	2,878
Charge for the period	(1,504)
As at 30 June 2016 (unaudited)	3,705
As at 1 January 2017 (audited)	1,074
Charge for the period	(142)
As at 30 June 2017 (unaudited)	932

Development costs are internally generated.

Such intangible asset are amortised on a straight-line basis over 5 years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	491,142	495,670
Less: allowance for doubtful debts	(10,680)	(8,357)
	480,462	487,313
Advances to suppliers	3,507	3,213
Bills receivables	397,538	384,355
Prepayment	9,252	2,895
Other receivables	27,403	16,597
	434,193	403,847
Total trade and other receivables	918,162	894,373

The Group allows a credit period of 30 to 120 days to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. For those major customers with a good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. TRADE AND OTHER RECEIVABLES (continued)

The following is an aged analysis of trade receivables, presented based on dates of delivery of goods, at the end of the reporting period:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 to 60 days	376,104	337,209
61 to 90 days	51,084	70,438
91 to 180 days	44,256	57,450
Over 180 days	9,018	22,216
	480,462	487,313

The aged analysis of bills receivables, presented based on dates of delivery of goods, at the end of the reporting period are analysed as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 to 60 days	100,336	34,724
61 to 90 days	77,242	115,994
91 to 180 days	170,267	189,342
Over 180 days	49,693	44,295
	397,538	384,355

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB122,581,000 (31 December 2016: RMB123,367,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Bank balances carry interest at market rates within range from 0.01% to 0.35% (31 December 2016: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 2.75% (31 December 2016: 0.35% to 2.75%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade payables	327,642	399,690
Bills payables — secured	239,796	218,971
Other taxes payables	83,539	62,347
Payroll and welfare payables	21,123	25,430
Construction payables	—	4,450
Advanced from customers	10,085	9,572
Others	469	19,375
	682,654	739,835

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of the Group's trade payables presented based on dates of receipt of goods at the end of the reporting period:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 to 60 days	158,026	255,885
61 to 90 days	41,879	50,686
91 to 180 days	112,084	82,316
Over 180 days	15,653	10,803
	327,642	399,690

The aged analysis of the Group's bills payables presented based on dates of receipt of goods at the end of the reporting period are analysed as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 to 60 days	29,748	65,130
61 to 90 days	35,887	8,950
91 to 180 days	75,861	89,341
Over 180 days	98,300	55,550
	239,796	218,971

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

16. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. BORROWINGS

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Bank borrowings, secured	721,191	752,229
Other borrowings, secured	28,440	41,877
Other borrowings, unsecured	43,500	43,500
	793,131	837,606
Carrying amount repayable:		
Within one year	683,897	702,107
More than one year but not more than two years	47,069	47,637
More than two years but not more than five years	62,165	87,862
	793,131	837,606
Less: Amounts due within one year shown under current liabilities	(683,897)	(702,107)
Amounts shown under non-current liabilities	109,234	135,499

Bank borrowings and other borrowings as at period end were secured by the pledged of assets set out in note 20.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	30 June 2017	31 December 2016
Effective interest rate:		
Fixed rate borrowings	3.16% to 7.22% per annum	3.16% to 7.22% per annum
Variable rate borrowings	3.63% to 6.69% per annum	3.63% to 6.69% per annum

Benchmark interest rate is quoted by the Peoples' Bank of China.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Deferred tax assets	(2,370)	(2,235)
Deferred tax liabilities	5,007	5,007
	2,637	2,772

The following are the major deferred taxation liabilities recognised and movement thereon during the current and preceding interim period:

	Deferred income RMB'000	Impairment of receivables RMB'000	Depreciation differences RMB'000	Tax losses RMB'000	Undistributable profit of subsidiaries RMB'000	Total RMB'000
At 1 January 2016 (audited)	(670)	(198)	2,074	–	–	1,206
Reversal of deferred tax liabilities upon distribution of profits	–	–	–	–	1,000	1,000
Charge (credit) for the period	–	–	–	(162)	–	(162)
At 30 June 2016 (unaudited)	(670)	(198)	2,074	(162)	1,000	2,044
At 1 January 2017 (audited)	(1,255)	(981)	1,908	–	3,100	2,772
Charge (credit) for the period	–	–	–	(135)	–	(135)
At 30 June 2017 (unaudited)	(1,255)	(981)	1,908	(135)	3,100	2,637

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. DEFERRED TAXATION (continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at the end of the current interim period, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RMB516,424,000 (31 December 2016: RMB472,440,000).

No deferred tax liability has been recognised in respect of these differences because the Group's is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

19. SHARE CAPITAL

	Number of share	Share Capital HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	500,000,000	50,000,000
		RMB'000
Presented as: (At 31 December 2016 and 30 June 2017)		41,655

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

20. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group at the end of the reporting period:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Buildings and construction in progress	37,351	76,863
Plant and machinery	265,507	223,372
Land use right	144,819	162,057
Trade receivables	80,000	80,000
Bills receivables	9,840	26,239
Pledge bank deposits	93,920	123,367
Inventories	20,000	45,108
	651,437	737,006

21. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within one year	25,503	22,198
On the second to fifth year inclusive	20,920	31,925
After five years	444	4,747
	46,867	58,870

Operating lease payments represent rentals payable by the Group for certain of its office premises and plant and equipment. Leases are negotiated for a term of one to five years. Rentals are fixed at the date of signing of lease agreements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. CAPITAL COMMITMENTS

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	52,237	48,275

23. RELATED PARTIES TRANSACTIONS AND BALANCES

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing Company Limited (“ Zheng Ye Leasing ”)	With the common controlling shareholders

(b) Related parties transactions

	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Rental expenses of property — Zheng Ye Leasing (Note)	3,402	2,216

Note:

Rental deposit of RMB450,000 paid to Zheng Ye Leasing has been included in trade and other receivables on the Condensed Consolidated Statement of Financial Position at 30 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

23. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

(c) Related parties balances

Amount due from a related party, amounts due to directors and amounts due to related parties are separately disclosed on the Condensed Consolidated Statement of Financial Position.

(d) Compensation of key management

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Salaries and other benefits	5,497	9,625
Retirement benefits scheme contributions	117	235
	5,614	9,860